

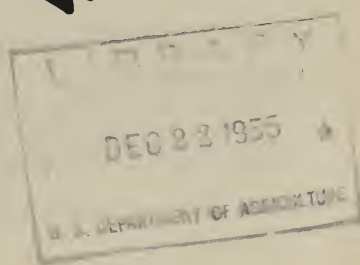
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BETTER LIVING

F.C.S.
Educational Aid 3
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SEPTEMBER 1955



FARMER COOPERATIVE SERVICE

U. S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D. C.

In Cooperation with

PENNSYLVANIA ASSOCIATION OF FARMER COOPERATIVES

and AMERICAN INSTITUTE OF COOPERATION



FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

JOSEPH G. KNAPP, ADMINISTRATOR

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmers' cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

COPIES OF THIS REPORT MAY BE HAD ON REQUEST WHILE A
SUPPLY IS AVAILABLE FROM THE
INFORMATION DIVISION
FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.

INTRODUCTION

This circular is adapted from a series of colored slides and the accompanying lecture notes prepared in cooperation with the Pennsylvania Association of Farmer Cooperatives and the American Institute of Cooperation in an effort to explain to farm youth the place of farmer cooperatives in our American free enterprise system.

The aim of this publication is to show the problems farmers frequently solve for themselves by working together and thus producing a better living for each of them as individual businessmen. It also explains the major differences between the four types of business organizations -- the individually owned business, the partnership, the cooperative corporation, and other corporations.

Those who wish to obtain a set of the colored slides and the suggested lecture notes may obtain them for a nominal price from the American Institute of Cooperation, 744 Jackson Place, N. W., Washington, D. C.

Better Living

Part 1

Aims of Vocational Agriculture

Better Living Tied to Personal Competence

In vocational agriculture we have several broad aims. One of these is to help you make a better living. Getting the man who uses a product as close as possible to the man who produces it is an essential part of industry.

Many farmers have learned practical ways of doing this thus narrowing the economic spread between the producer and the consumer. They have learned further that this can be done through pooling their efforts - by working together. In this way they can get supplies of known high quality and sell foods and fiber of high quality, at minimum price spreads.

This type of cooperation reduces farm and marketing costs, gives farmers a better living, and benefits the consumer at the same time.

Another aim is to provide for personal competence in the job you are doing. There are several ways you can accomplish this.

Proven Practices a Means to Personal Competence

How are we going to attain personal competence? One way is to learn the practices that have been proven successful. These practices include such things as culling the poultry flock, fertilizing corn properly, selecting a good dairy calf, and many others. This alone, however, will not make you competent.

Managerial Ability (Attitudes - Facts - Evaluation - Decisions)

Other factors such as managerial ability have to be considered. Managerial ability is made up of at least four things.

The first of these is attitudes. You must have a correct attitude toward farming. You must like it. You must be proud to be a farmer. You must think of it as a desirable way of life.

Knowing the facts is a second phase of managerial ability.

After the facts are known, you are in position to evaluate your farming programs and finally arrive at sound decisions.

All four of these things - attitude, facts, evaluation, and decisions - are necessary to managerial ability.

MANAGERIAL ABILITY

ATTITUDES . . FACTS . . EVALUATION . . DECISIONS

PRACTICES



AIMS

1. BETTER LIVING
2. PERSONAL COMPETENCE

Managerial Ability in Selecting and Buying Raw Materials

In carrying out your farming programs, you must have certain farm production supplies - raw materials - such as seed, feed, fertilizer, gas and oil. You also must have livestock, equipment and capital and credit. With these raw materials, you use your farm as a manufacturing plant, to produce various products.

An important part of management is the ability to make the right decisions in selecting high quality raw materials and buying them at the lowest possible cost.

Managerial Ability in Selling Products

On the other side as finished products, you have dairy products, crops, livestock, and poultry and eggs. You have to have the ability to produce high quality products.

Then you also need to have the ability to make the right decision as to where to sell them in order to get the highest possible returns. Some of the factors considered in this booklet will have to be well understood if you are going to properly evaluate the facts and make the right decisions.

Much of your work in vocational agriculture has dealt with methods of increasing production - more milk per cow, more corn per acre, more eggs per hen and the like. You are learning to use the land, the supplies and equipment, the livestock, your own labor and know-how to make the largest possible income. This is very important to you and to farmers in general.

However, attention also needs to be given to the many business aspects of farming for farming is a business. These business aspects include the purchasing of farm supplies, the marketing of farm products, and the obtaining of such services as seed treating, artificial insemination, insurance, credit, and electricity.

These business aspects of farming, if properly handled, add to the efficiency of farming and make a better farm living possible. Here too, we must learn to use the tools which are at hand.

MANAGERIAL ABILITY
ATTITUDES .. FACTS . EVALUATION .. DECISIONS

PRACTICES

**FARM
SUPPLIES**

LIVESTOCK

**EQUIPMENT
and SERVICE**

CREDIT

**DAIRY
PRODUCTS**

CROPS

LIVESTOCK

**POULTRY
and EGGS**



AIMS

1. BETTER LIVING
2. PERSONAL COMPETENCE

Part 2

Objectives and Principles of Co-ops Compared With Other Types of Business

Four Major Ways of Doing Business

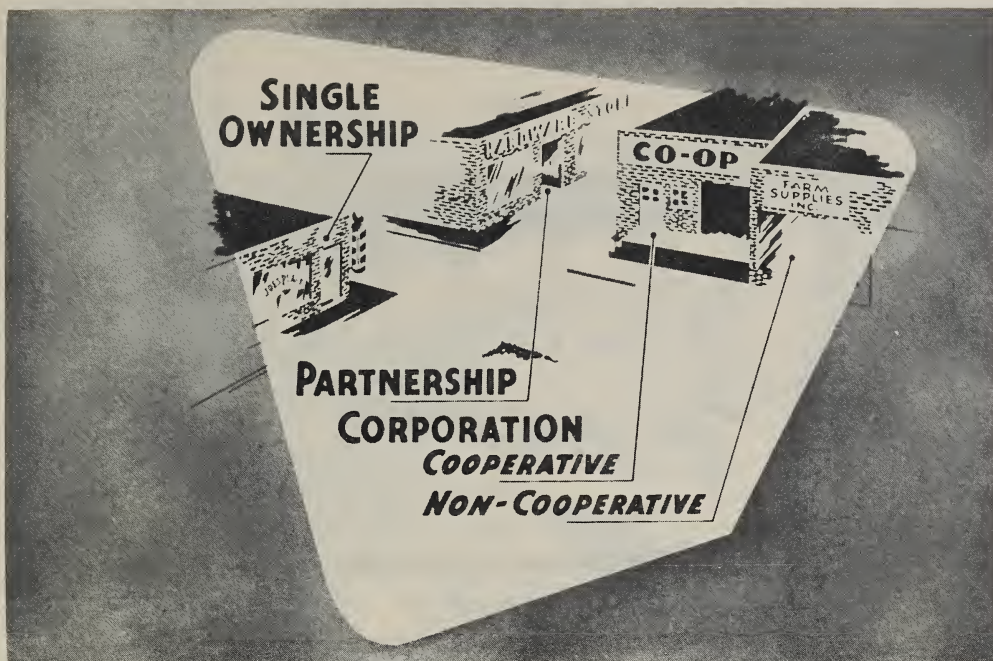
In considering farming as a business in this country, we should recognize these are four major ways of doing business as shown on this slide. You will find them in many communities. No doubt they are in yours.

The first one is the single owner type. In this type, one person puts up all the capital or money necessary to start and to maintain the business. Any profits or losses that result from the operation naturally belong to him.

The next type of business in terms of people involved is the partnership. Here two or more individuals pool their capital and business know-how into one enterprise. They may or may not contribute equal amounts of capital. As in the case of one-man business, the partners get the profits.

The next two types of business are similar in two respects. Both are corporations. Also, both involve numbers of people who combine their capital to form the business. Here, however, the similarity ends.

In the case of the non-cooperative corporation, the objective of the business is profits for the investors. In the case of the cooperative, the objective is new or improved services for the patrons at cost.



Most farms are single ownership businesses. Experience has shown that this type of business has many advantages in farming particularly in the production field.

However, because of the small units this frequently has disadvantages when it comes to buying farm supplies or selling farm products. Usually it means farmers have to buy at retail and sell at wholesale. Thus, thousands of farmers have overcome this difficulty by joining with other farmers in cooperatives to handle this part of their farming business.

Farm Co-ops in United States

TYPE	NUMBER OF ASSOCIATIONS	ESTIMATED NO. MEMBERSHIPS
PRODUCTION	13,138	782,926
FARM SUPPLY & REL. SERVICES	10,114	7,474,495
FINANCING	1,813	3,930,078
INSURANCE	1,775	3,500,000
RURAL ELECTRIC	945	3,953,299
RURAL HEALTH	13	38,883

NOTE - LATEST AVAILABLE FIGURES JUNE 1955

Farm Co-ops in United States

CO-OPS	NO. ASSOCIATIONS
COTTON	539
DRY BEANS	15
DAIRY PRODUCTS	1,917
FRUITS and VEGETABLES	776
GRAIN	2,172
LIVESTOCK	524
NUTS	40
POULTRY	148
RICE	57
SUGAR PRODUCTS	64
TOBACCO	28
WOOL	144
MISCELLANEOUS	129
TOTAL MARKETING	6,489
FARM SUPPLY	3,376
RELATED SERVICES	65
TOTAL MARKETING, FARM SUPPLY and SERVICE	10,114

A Co-op Is a Corporation

In the next few pages we will discuss cooperatives as organizations. The "C" stands for corporation. Co-ops usually are legally incorporated like other types of corporations. This limits liability of the members and thus gives them business protection.

A Co-op Is Owned by Farmers

The first "O" stands for owned. Co-ops are owned by the farmers who use them. They usually borrow additional capital for larger or more efficient operation. However, it is their money that assumes the major risks of the business.

Co-ops are Operated by and for the Farmer

The second "O" stands for operated. Co-ops are not only owned by farmers, but are operated by them for their mutual benefit. They operate their cooperative by electing a board of directors to represent them in establishing policies and hiring a manager to carry on the every-day business.

Co-ops Handle Products

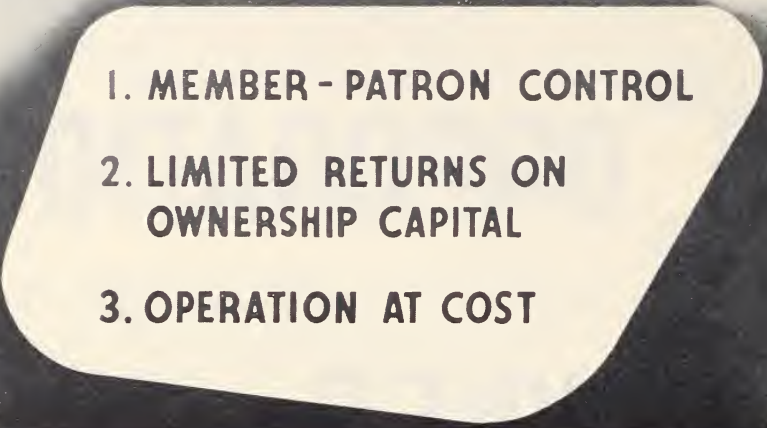
The "P" stands for products and business services. Farmers own and operate co-ops to increase efficiency in producing and handling the Nation's food and fiber.

Summary of What a Co-op Is

To summarize, a farmer-cooperative is a business organization of agricultural producers that is developed, owned and operated by the member-patrons and designed to perform needed services for them at the lowest possible cost.

CORPORATION
OWNE
OPERATED
PRODUCTS

BASIC PRINCIPLES OF FARMER COOPERATIVES

- 
- 1. MEMBER - PATRON CONTROL**
 - 2. LIMITED RETURNS ON OWNERSHIP CAPITAL**
 - 3. OPERATION AT COST**

There are three principles which distinguish farmer-cooperatives from other types of businesses. These principles are:

1. Member-patron control.
2. Limited returns on ownership capital.
3. Operation at cost.



In democracies the people decide their own destiny. Co-ops are economic democracies. Thus their control is in the hands of the member-patrons. They exercise this control through their votes.

The principal method of voting in farmer cooperatives is one member - one vote. The laws in about eight States require that this method be used. Most cooperatives in other States also use the one member - one vote method.

A few co-ops use other methods. These methods are voting according to patronage, or according to the number of shares of stock held. However, in all cases the voting must be limited to the member-patrons.



The second cooperative principle is that there is a limited rate of return on capital. The people who put up the capital are the same people who use the services of the cooperatives. Their chief objective is to obtain services rather than to receive income on investment. Thus the return from the investment capital is limited to an interest-type rate. In many States the law fixes the maximum dividend on capital stock in a farmer's cooperative at from 6 to 8 percent per year. Most cooperatives actually pay less than 6 percent.

Operation at Cost

PATRONAGE



SAVINGS



PATRONAGE



SAVINGS



**SAVINGS DIVIDED IN
PROPORTION TO PATRONAGE**

The third principle of a true cooperative is "Operation at Cost." That is, after all expenses are paid, including the interest on invested capital, the balance or the savings are divided among the patrons in proportion to their patronage of the cooperative. In other words, in proportion to the business they did with the association. This further emphasizes that the objective of farmer cooperatives is to improve farm income through providing improved services rather than from returns on investment.

Co-ops Compared With Other Types of American Business

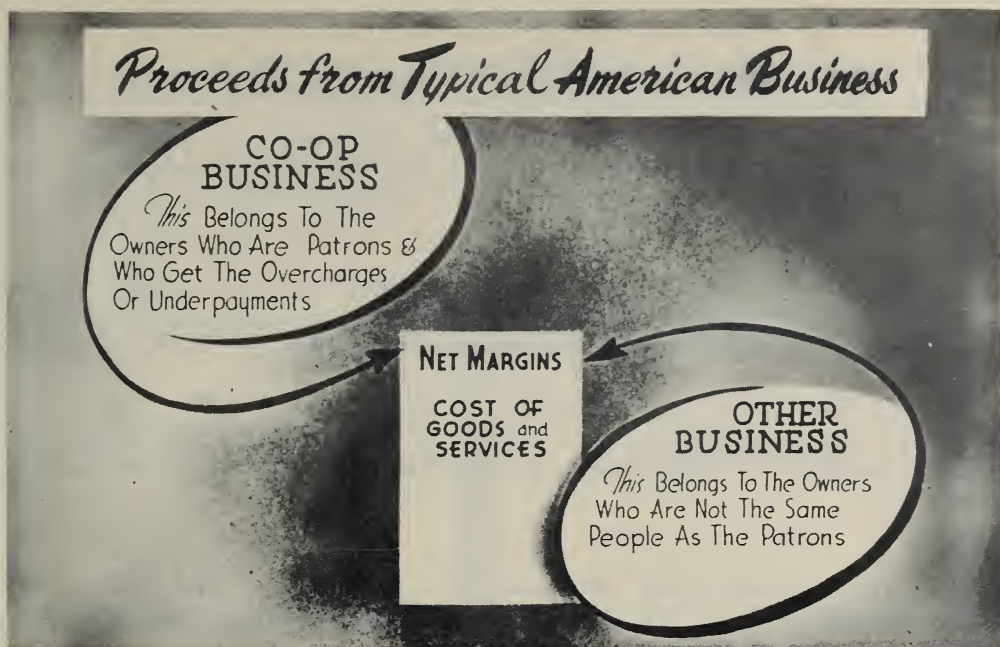
As already mentioned there are four of the common types of American business. They are Single Ownership, Partnership, Cooperative Corporation, and Non-cooperative Corporation.

Division of Proceeds by Typical American Businesses

A co-op belongs to the owners who are the patrons and who get the net savings as patronage refunds. Net savings are the sum remaining after costs are paid. You recall we have already mentioned that the purpose of a farmer cooperative is to provide the member-patrons with services at cost.

The other three types of Typical American Businesses might be classed as Other Businesses. Here the owners or stockholders usually are not the same people as the patrons. The owners receive all the profits.

The main difference between the operations of these two forms of business is in what becomes of the differences between the expenses and the receipts. These net margins are profits to the corporation in the non-cooperative business and naturally these profits go to the owners. In a cooperative corporation it's different.



In a purchasing cooperative, net margins are really overcharges to the member-patrons for goods. In a marketing cooperative net margins are underpayments received by member-patrons for products sold.

The net margin in a cooperative results from overcharges or underpayments, by or to member-patrons. Therefore, they are not profits of the corporation at all. These margins belonged to the member-patrons all the time. Thus they are savings made for member-patrons and go to them as patronage refunds and thus add to the profits of the individual farm business.

Two Types of American Business Corporations

The two general types of American business corporations - the cooperative and the non-cooperative - differ in several respects.

First, in a cooperative, the owner-patrons are the users of the services. In a non-cooperative corporation, the users of the services are generally not the owners.

Secondly, a cooperative is owned by the member-patrons. A non-cooperative corporation is owned by the investor stockholders.

Third, in a cooperative, the member-patrons do the voting. In about 85 percent of the marketing and purchasing cooperatives of the U. S. all members have one vote each. In a non-cooperative corporation, the common stockholders, as investors, vote according to the number of shares they own. Each common stockholder has as many votes as he has shares of stock.

Fourth, in a co-op, members, as patron-owners, and the directors determine policies. In a non-cooperative corporation the stockholders, as investor-owners, and directors determine policies.

Fifth, in a cooperative, the member-patrons provide most of the capital necessary to secure needed services. In a non-cooperative corporation, the stockholders, as investors, provide this capital.

Sixth, in a cooperative, returns on ownership capital are limited to an interest type rate. In a non-cooperative corporation, returns on ownership capital are unlimited.

Seventh, in a cooperative, patrons get the net margins - overcharges or underpayments - on a patronage basis. In a non-cooperative corporation, these proceeds all go to the common stockholders in proportion to the amount of stock each holds.

You will recall that points three, six, and seven are the so-called principles of cooperation which we discussed earlier.

2 Types of American Business Organizations

FARMER COOPERATIVE (USUALLY CORPORATION)

1. Owner - Patrons are Users of Services
2. Member - Patrons Own the Business
3. Each Member - Patron Usually Has One Vote
4. Member - Patrons and Directors Determine Policies
5. Member - Patrons Provide Most of Capital
6. Returns on Capital Limited
7. Patrons Get Operating Proceeds on Patronage Basis

NON - COOPERATIVE CORPORATION

1. Users of Services Generally Not Owners
2. Stockholders Own the Business
3. Common Stockholders Vote by Shares Owned
4. Common Stockholders and Directors Determine Policies
5. Stockholders as Investors Provide Capital
6. Returns on Owner Capital Not Limited
7. Stockholders Get Operating Proceeds in Proportion to Stock Held

Part 3

Types and Relationships of Farmer Cooperatives

Types by Services Rendered

There are three major parts of your farm business where many farmers find that cooperatives can help them do a better job of farming and thereby enable you to have a better living.

The important thing to remember is that you should first get the facts. Then you can develop the proper attitudes and evaluate the usefulness of these organizations in terms of their long-time benefits. If you decide to use them, there are three main groups in this country.

Purchasing Cooperatives

When you buy the raw materials - seed and feed, fertilizer, equipment and livestock - you may decide that the best way is through a cooperative. What you are doing then, is adding to your farming operations one step before farm production. You are now in the business of buying your farm supplies cooperatively and are making use of a purchasing cooperative.

Marketing Cooperatives

After you have purchased supplies cooperatively and produced products on your farm there is another part of your farm business. Your products must be marketed after they are produced. If you decide to sell eggs, for example, through a cooperative, you are then using a marketing cooperative. You then have carried your farm operations one step beyond production or beyond the line fence of your farm.

Service Cooperatives

There is still another type of cooperative that you may want to use. This is the service cooperative. For example, you may want to electrify your farm, thereby using a rural electric cooperative. You may want to borrow money from a production credit association to buy seed, feed, fertilizer, equipment or livestock. You may also borrow from another cooperative, your national farm loan association, to buy land or erect buildings. You may want to up-grade your dairy herd by the use of an artificial breeding cooperative. Or you might insure your buildings in a mutual fire insurance association. Your cooperative may also need to borrow from the Bank for Cooperatives. All of these are service cooperatives and can be of value in conducting your farming business.

MANAGERIAL ABILITY
ATTITUDES .. FACTS .. EVALUATION .. DECISIONS

PRACTICES

**FARM
SUPPLIES**

LIVESTOCK

**EQUIPMENT
and SERVICE**

CREDIT

**DAIRY
PRODUCTS**

CROPS

LIVESTOCK

**POULTRY
and EGGS**



AIMS
1. BETTER LIVING
2. PERSONAL COMPETENCE

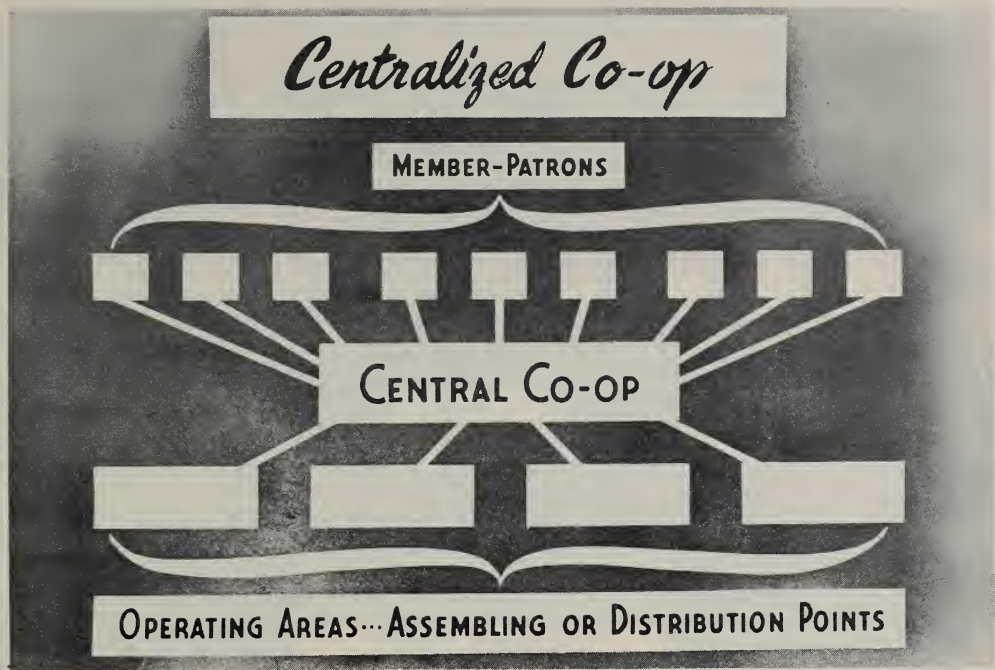
PURCHASING

SERVICE

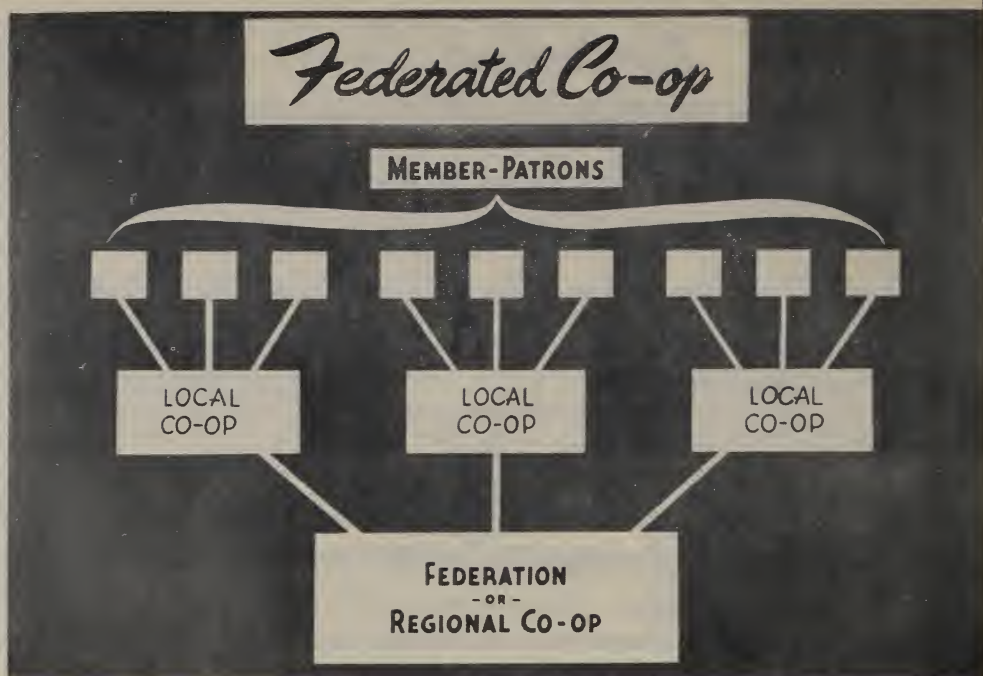
MARKETING



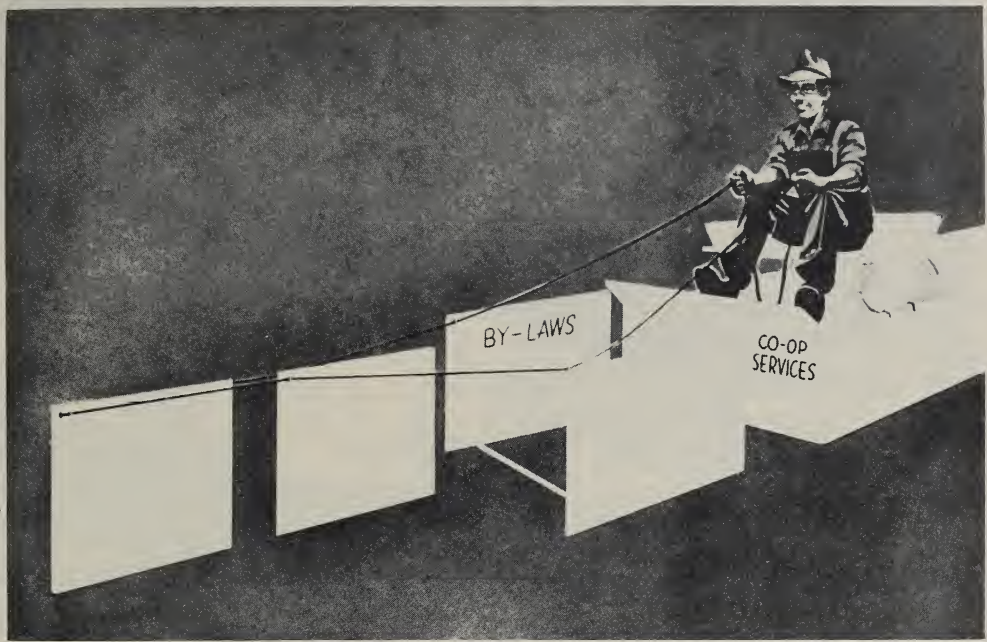
A purchasing, marketing or business service cooperative can be a local cooperative. Local associations are the oldest and best known form of cooperatives. A local cooperative is an association in which both the membership and the business operations are limited to one community or local area. Can you think of a good example of a nearby local cooperative? In a local association the members are neighbors. Thus the local escapes many of the problems of misunderstanding which confront cooperatives where members live in scattered communities.



A second type of cooperative is the centralized. This is really a large local as far as structure is concerned. The growers have direct membership in the central association. However, the association may serve a wide area, sometimes several States.



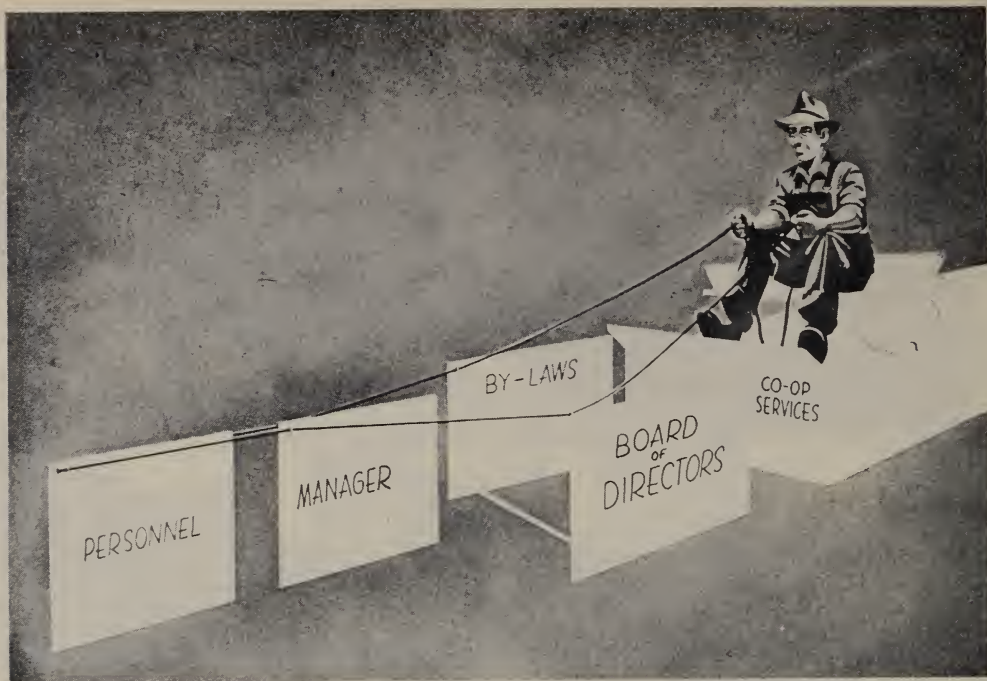
A federated cooperative is a union of local co-ops. The growers belong to the local. The local, along with other locals, belong to and make up the federation. The locals own and control it. The federated body acts as wholesale buyer or seller for the member locals. In addition it performs other services for the members.



Co-op Relationships

This series of illustrations shows the relationship of the cooperative to the members. The wagon represents the co-op. The co-op belongs to and is controlled by the farmers. They sit in the driver's seat. They hold the reins. The reins of control, of course, are the members' votes.

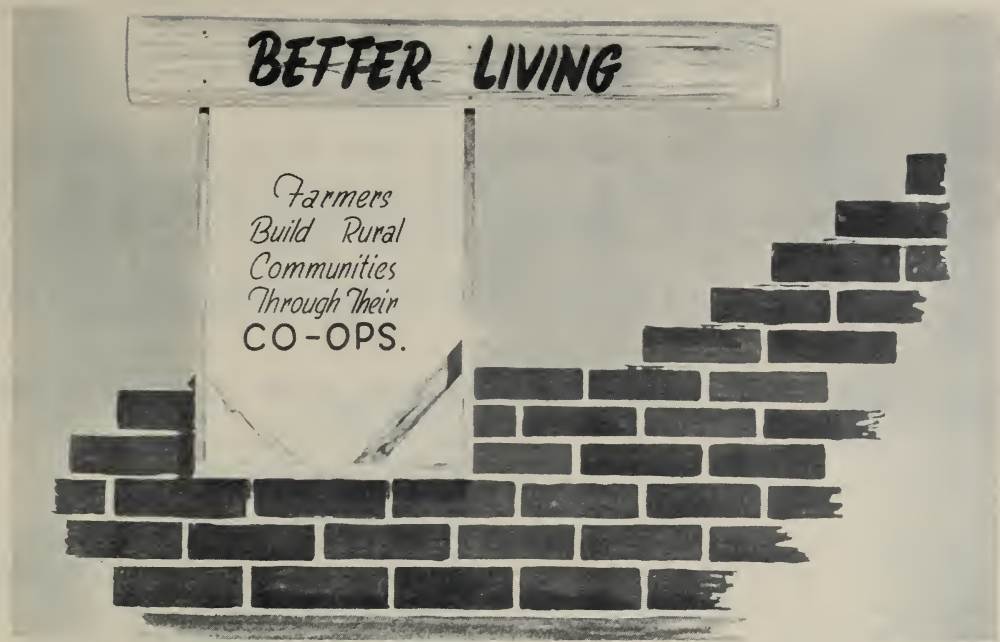
A wagon has to have something to pull it. What keeps this co-op wagon going? The first is the off-side horse. He is the bylaws. The bylaws, adopted by the members, are the rules and regulations by which the co-op is operated.



The second is the lead horse or sometimes called the saddle horse. It represents the board of directors. The farmers elect the directors and then expect them to take a lead position in determining policies.

The horse in front of the bylaws and the board of directors is the manager. He is selected by and is responsible to the board of directors. His job is to convert the policies established by the board and by the bylaws into business action.

The manager, of course, cannot perform all of the services. So other persons - the fourth horse - are employed by the manager to do this work. The manager should do the hiring, firing, and supervising of employees. However, note the lines of control back through the directors to the grower-member. All these horses are necessary to pull the farm-cooperative service wagon.



Better Living

A farmer cooperative, if it is well operated, is a means of providing the farmer a better living through improving his income. Anything that the rural people do to improve their status - as long as it conforms with proven American principles - will benefit the entire Nation.

Through cooperatives farmers can improve rural business. They give the farmer a "lift." They foster the spirit of competition because they set the pace for many services.

These reasons all boil down to one outstanding fact: cooperatives are good for the farmer. They are good for the community and for small towns where he does his trading. If a cooperative can make a farmer more prosperous, it is only natural that the community shares in this prosperity.

What Makes a Co-op Succeed?

First, a cooperative succeeds best when there is an economic need. If non-cooperative businesses in a given community are providing efficient services at reasonable prices, there may be no need to form a farmers' cooperative. Before a new cooperative is organized a careful study of local prices and markets should be made to determine if there is an economic need for one.

Second, the organization and operation of the cooperative will take thoughtful planning.

Third, the management must be capable and efficient.

Fourth, the members must be loyal; they should study their organization and its problems in the same manner as they do the problems of their own farms. After all they are both part of their business.

Fifth, the members need to supply the association with adequate volume to do an efficient job. They can do this by giving it their business and urging neighbors to do the same.

Sixth, the co-op will have to be adequately financed. Some money can be borrowed, but risk capital must be supplied by member-owners.

Realize Inherited Values

As farm boys and as farmers, you enjoy many privileges. Many things you now have may not seem important. Such things as our form of Government, our freedom of worship, your F.F.A. organization and many other phases of our everyday life are taken for granted. They would seem very important, however, if we lost them.

The events that took place and made these privileges possible, in most cases occurred before our time. However, we can get an understanding and appreciation of them by studying words and pictures. You can live with Washington and his soldiers, through pictures and words, as they spent the tragic winter at Valley Forge. You can try to understand what we mean by freedom in America by reading about the Pilgrims on the shores of New England or about William Penn in Pennsylvania. You can keep the F.F.A. an active organization by giving the history of the organization and its aims and purposes at a chapter meeting, a parent-and-son banquet, or an assembly program. In short, you can re-live the experiences of the founders and, through feeling what they felt, see the value of your heritage.



Co-ops Succeed

When there are:

- Economic Need
- Thoughtful Planning
- Efficient Management
- Loyal Members
- Adequate Volume
- Adequate Financing

Your heritage of farmer cooperatives is no exception. They have been of great value to farmers and can continue to serve by helping farmers market their commodities, and obtain farm supplies and needed services effectively. As self-help organizations they assist farmers to solve some of their problems and improve their standard of living. Whether they continue to help farmers in these ways will depend upon how well you and other farmers understand their value, work to make them effective, and how well you support them. The future of cooperatives depends on whether or not farmers realize what cooperatives are, and when or how they can be used to serve farm families.

OTHER PUBLICATIONS

Other circulars available from the Farmer Cooperative Service include:

<i>Using Your Co-op Creamery.</i>	<i>Forming Farmers' Cooperatives.</i>
<i>Using Your Livestock Co-op.</i>	<i>Financing Farmers' Cooperatives.</i>
<i>Using Your Poultry and Egg</i>	<i>Managing Farmers' Cooperatives.</i>
<i>Co-op.</i>	<i>Merchandising by Farmers'</i>
<i>Using Your Co-op Elevator.</i>	<i>Cooperatives.</i>
<i>Using Your Co-op Gin.</i>	<i>The Story of Farmers' Cooperatives.</i>
<i>Using Your Wool Co-op.</i>	<i>Farmers' Cooperatives in Our</i>
<i>Using Your Farm Supply Co-op.</i>	<i>Community</i>
<i>Using Your Fruit and</i>	<i>Using a Local Cooperative as</i>
<i>Vegetable Co-op.</i>	<i>Source Material for Teaching</i>
<i>Using Your Fluid Milk Co-op.</i>	<i>Guide for Teaching Farmer</i>
<i>Insuring Through Your Farmers'</i>	<i>Cooperation</i>
<i>Mutual.</i>	<i>Cooperative Business Training</i>
<i>Sizing Up Your Cooperative.</i>	<i>for Farm Youth</i>
<i>The American Private Enterprise System</i>	

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